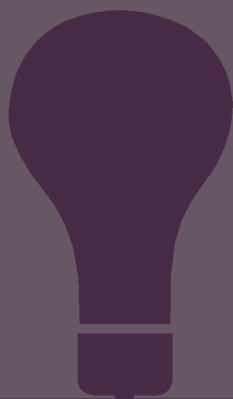
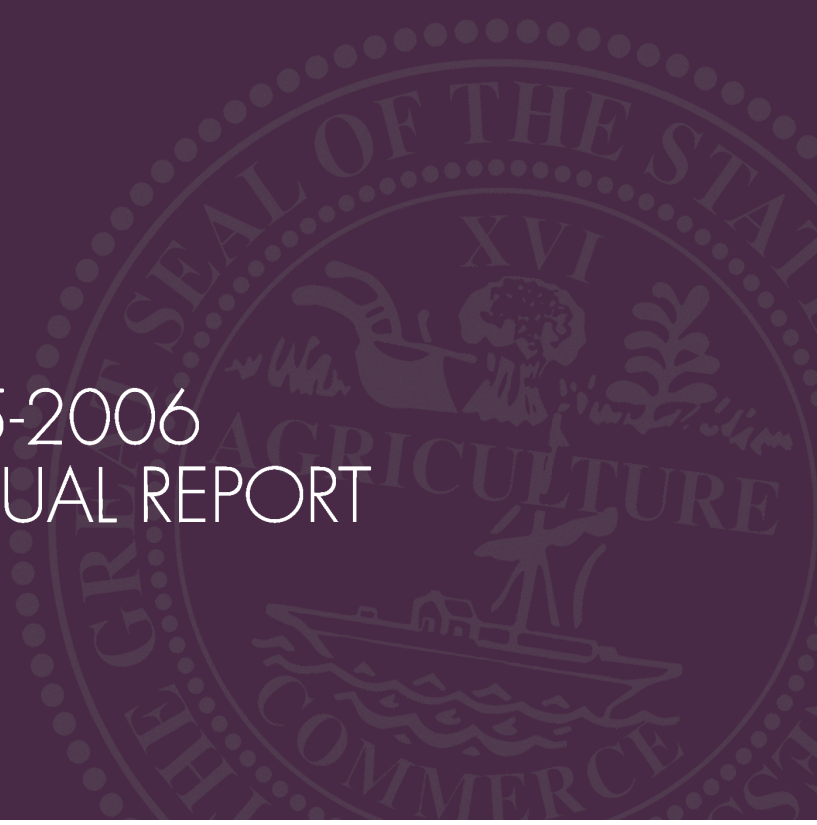


TENNESSEE REGULATORY AUTHORITY



2005-2006
ANNUAL REPORT



TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Eddie Roberson, Director
Pat Miller, Director
Ron Jones, Director



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

January 2007

The Honorable Phil Bredesen
Governor, State of Tennessee

The Honorable John S. Wilder
Lieutenant Governor

The Honorable Jimmy Naifeh
Speaker of the House of Representatives

Members of the General Assembly

It is with great pleasure that we present to you the Annual Report of the Tennessee Regulatory Authority for Fiscal Year 2005-2006. This report has been prepared in accordance with Tennessee Code Annotated § 65-1-211. The Authority works fervently to ensure that fair market competition is fostered and that all stakeholders are participating on an equal playing field in the private utility sector.

Respectfully submitted,

Handwritten signature of Sara Kyle in black ink.

Sara Kyle, Chairman

Handwritten signature of Eddie Roberson in black ink.

Eddie Roberson, Director

Handwritten signature of Pat Miller in black ink.

Pat Miller, Director

Handwritten signature of Ron Jones in black ink.

Ron Jones, Director



2005-2006 Annual Report

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Message from the Chairman



I am pleased to present to you and our fellow Tennesseans the 2005-2006 Tennessee Regulatory Authority Annual Report.

The Authority is responsible for promoting the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

This year's report highlights activities in which the Authority has been engaged during the past fiscal year. As industries evolve over time and competition requires a consistent change, so does our regulatory environment. Be it gas, water, electric or telecommunications, we recognize the vital role regulation and consumer assistance plays in the success of the state's utilities industry. We have committed to reviewing every case and

filing with the utmost scrutiny, making the best decisions for the maximization of these resources for every Tennessean. It is our hope to continue in this same tradition.

As always, we have endeavored to fulfill our mission and serve the consumers and providers in our state by ensuring an environment that is open for market competition and held accountable to a high level of expectation in the provision of services. I am confident that as you review this report, you will see that Tennessee has a healthy and vibrant regulatory environment. We hope this report is thorough, informative and easily understood.

As we move forward, we hope to continue to serve the people of our state with the highest levels of accountability and openness.

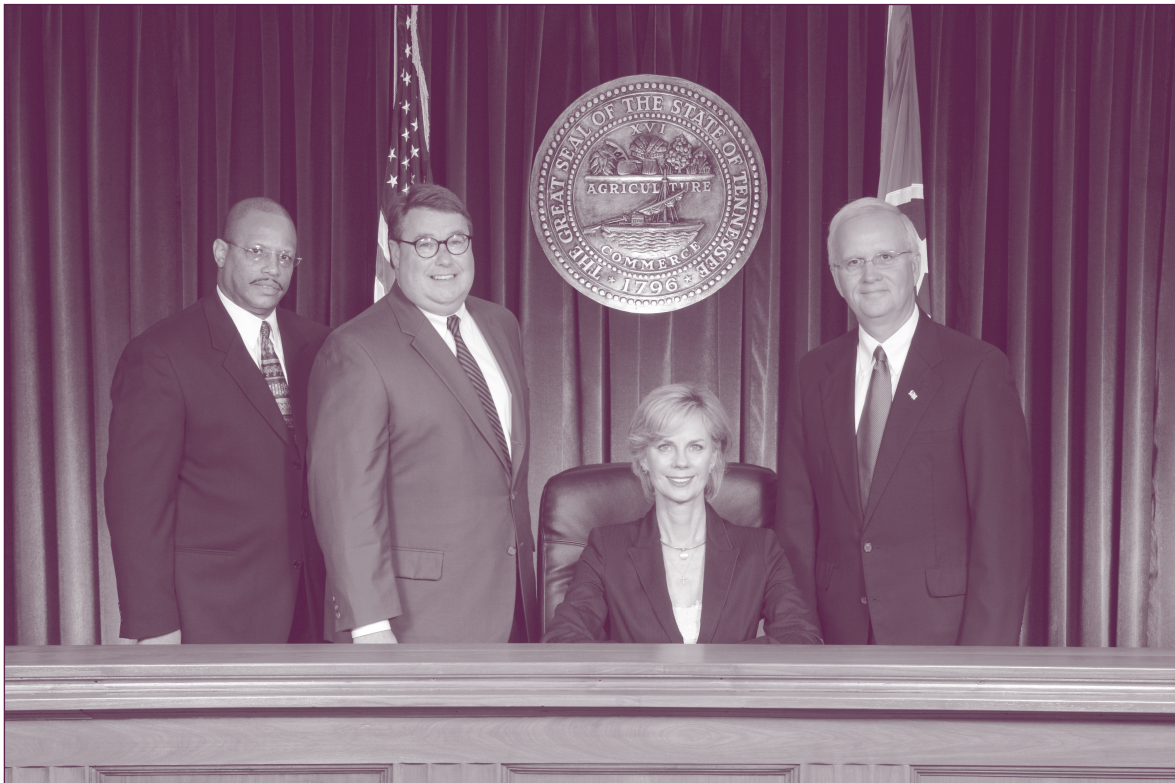
With warmest personal regards,

A handwritten signature in dark ink that reads "Sara Kyle". The signature is fluid and cursive, with the first name "Sara" and last name "Kyle" clearly distinguishable.

Sara Kyle



Authority Overview



From left to right, Director Ron Jones, Director Pat Miller, Chairman Sara Kyle, Director Eddie Roberson.

Introduction

The General Assembly approved legislation in 1995 to create the Tennessee Regulatory Authority (the Authority), a governing body to regulate utilities in Tennessee. The Authority's mission is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

Four directors, appointed to six-year terms, comprise the Authority's leadership. Chairman Sara Kyle is the appointee of the Speaker of the House. Director Eddie Roberson, Ph.D., is the Governor's appointee; Director Pat Miller is the appointee of the Lieutenant Governor; Director Ron Jones is the joint appointee of the Governor, Lieutenant Governor and the Speaker of the House. The chairmanship rotates every year in an agreed-upon decision by the directors.



Sara Kyle

Sara Kyle was born in 1952 near the Tri-Cities area of Upper East Tennessee just a few days before her uncle, the late Frank G. Clement, was elected to his first of three terms as governor of Tennessee. She attended Lincoln Elementary in Kingsport, Tennessee, and after moving to Middle Tennessee, graduated from Dickson High School.



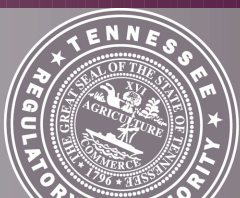
The daughter of Mr. and Mrs. Bruce Peery, she attended the University of Tennessee in Knoxville before graduating from Austin Peay State University and teaching elementary school in Clarksville. She attended graduate courses at Middle Tennessee State University while teaching. She received her law degree in 1987, the same year she married Senator Jim Kyle (D-Memphis). She practiced law in the same firm with her husband, and was an assistant public defender until she was elected to the Memphis City Court bench in 1991.

A member of a family with a proud tradition of public service in elective office, she has studied the ways government relates to its citizens and worked to make government and its agencies and

courts sensitive to the needs of its citizens. Director Kyle resigned from the bench in March 1994 to become a candidate for the Public Service Commission -- a race in which she stressed a strong ethics and reform program as a way to restore public confidence in the commission. She was nominated on February 29, 1996 by House Speaker Jimmy Naifeh to become one of three members of the new Tennessee Regulatory Authority. She was reappointed by Speaker Naifeh in 2002 to serve another six-year term.

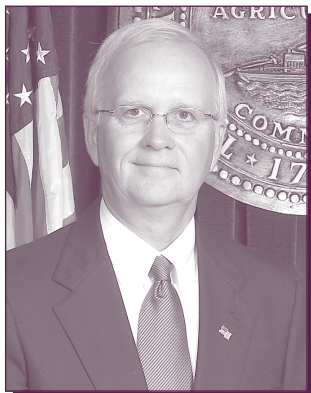
The Kyles have four children and attend Second Presbyterian Church in Memphis. Long active in organizations promoting better government and public awareness, she is a member of the board of directors of the Frank G. Clement Foundation, a former member of the board of directors of the Memphis chapter of the YWCA, a member of the Memphis Downtown Kiwanis Club, Neighborhood Watch Association (board member), Memphis and Shelby County Immunization Council (board member), the Tennessee, American, and Memphis Bar Associations, the Tennessee Lawyers Association for Women, Association of Women Attorneys, the League of Women Voters, Memphis Chapter and is a former Jaycee.

Additionally, she is a member of the National Association of Regulatory Utility Commissioners (NARUC) Communications Committee, as well as the past president of the Southeastern Association of Regulatory Utility Commissioners.



Eddie Roberson

Eddie Roberson was born in 1952 in Nashville, Tennessee. Raised in the home of a Church of God minister, his family was transferred to Chattanooga in 1960. He attended Chattanooga public schools and graduated from Chattanooga High School in 1971 where he played football and ran track. He graduated from the University of Tennessee at Chattanooga with bachelor's and master's degrees. While in Chattanooga, he was elected twice to the Chattanooga School Board and served as president of the Chattanooga Sertoma Club.



Director Roberson was hired by the Public Service Commission (PSC), the predecessor to the Tennessee Regulatory Authority, in 1975. He was appointed chief of the PSC's Consumer Services Division and transferred to Nashville in 1989. He also served as the agency's executive director from 1995 to 1996. He received a Ph.D. in Public Administration from The Institute of Government at Tennessee State University in 1998. He is also a Rule 31 Mediator.

Director Roberson lives in Hendersonville where he is actively involved in the community and the Hendersonville Church of God, where he serves as an Elder. He is a member of the Hendersonville Rotary Club where he is a Paul Harris Fellow and president-elect. He is married to the former Kathy Coxey of Chattanooga and they have two daughters, Heather and Brooke.

Pat Miller

Pat Miller was born February 11, 1958 in Nashville, Tenn. After graduating from Father Ryan High School, he earned a bachelor of arts degree in political science from the University of Tennessee in 1983 and received his Doctor of Jurisprudence from the Nashville School of Law in 1988.



Director Miller served as a fiscal analyst for the Tennessee General Assembly's Fiscal Review Committee from 1987 to 1993 and as legislative liaison for the Tennessee Supreme Court from 1993 to 1997. He served as chief of staff to Senate Speaker and Lt. Gov. John Wilder from 1997 to 2002, when he was appointed to a six-

year term as a director of the Tennessee Regulatory Authority.

Director Miller serves on the National Association of Regulatory Utility Commissioners (NARUC) Committee on Electricity, the NARUC Committee on International Relations, and the NARUC Subcommittee on Nuclear Issues-Waste Disposal. He also serves on the board of directors for the organization of PJM states, an organization which monitors the electricity reliability and usage of the regional transmission organization in fourteen states including Tennessee. He is a member of the Tennessee Broadband Task Force, Tennessee Information Systems Council, and the Southeastern Regulatory Utility Commissioners (SEARUC).

Director Miller and his wife Cindy live in Nashville and have two children, Caroline and Patrick. They are members of the Cathedral of the Incarnation Catholic Church.

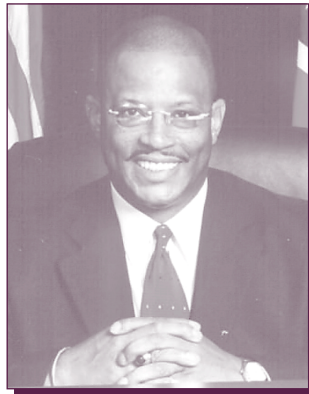


Ron Jones

Director Ron Jones, a native of Harlem, New York City, is the joint appointee of the governor, the speaker of the Senate and the speaker of the House of Representatives.

A 19-year veteran of public service in the utility sector, Director Jones served 10 years with the Tennessee Public Service Commission and the following six years with the Tennessee Regulatory Authority as a senior policy advisor. Director Jones' utility experience is in areas such as compliance, internal auditing, financial auditing and analysis, rate request evaluation, cost allocations, jurisdictional separations, and evaluation of the implementation of competitive carrier requirements. His extensive experience has afforded him an appreciation of historical regulatory paradigms and developing regulatory initiatives.

Director Jones attended St. John's University in addition to completing several Regulatory Studies



programs at Michigan State University, Graduate School of Business. He is a graduate of Tennessee State University where he received a B.B.A. with distinction.

Among his community activities, Director Jones is most proud of his work as a coach-volunteer at the East Nashville YMCA, as a member of the Board of Directors of the Village Cultural Arts Center, Inc., as a member of the Board of Directors of the Nashville Opportunities Industrialization Center (OIC), and as a volunteer to the Youth Life Learning Center.

Director Jones currently serves as Chairman of the National Association of Regulatory Utility Commissioners' (NARUC) Consumer Affairs Committee. Additionally, he serves on the NARUC Board of Directors; the NARUC Utility Market Access Partnership Board; the Southeastern Association of Regulatory Utility Commissioners; and as the NARUC representative to the Federal Communications Commission's (FCC) Consumer Advisory Committee.

Director Jones also served on the Metropolitan Government of Nashville and Davidson County's Task Force on Telecommunications Innovation.



Our Mission

To promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

The Authority's mission is fulfilled through two major operational components: consumer assistance and regulatory oversight of utility operations and market conditions.

Consumer Assistance Component

In alignment with its consumer assistance component, the Authority offers an efficient forum for the filing, investigation and hearing of consumer complaints against regulated utilities. The Authority also engages in outreach activities to educate consumers on its services and the regulated utilities. The Authority manages consumer-friendly programs developed by the General Assembly such as the Do Not Call Program, the Do Not Fax Program, Telecommunications Device Access Program (TDAP), and the Life Line and Link Up telephone assistance program.

Regulatory Oversight Component

The Authority operates as Tennessee's regulatory oversight engine for privately-owned utilities serving Tennessee consumers. The Authority provides an accessible and efficient process that is fair and unbiased. Through this process, the Authority evaluates many items, including requests for rate mod-

ifications, applications for authority to provide service, requests for approval of financing transactions, requests for approval of mergers, petitions for transfer of authority to provide service, numbering appeals, requests for numbering allocations, requests for rule modifications, petitions for approval of interconnection agreements and utility-to-utility complaints. The Authority also monitors utility markets to evaluate current trends and determine the need for future action.

The Authority has jurisdiction over public utilities including:

- **Electric companies**
- **Telephone companies**
- **Water and wastewater companies**
- **Natural gas companies**
- **Methane gas companies**

The Authority is financially independent of Tennessee's general fund. The Authority's operational expenses are covered wholly by the industries it regulates, with a small portion coming from the federal government.

Authority staff includes accountants, administrators, attorneys, consumer specialists, economists, engineers, information technology and computer specialists, a public information officer, a consumer outreach manager and administrative support.



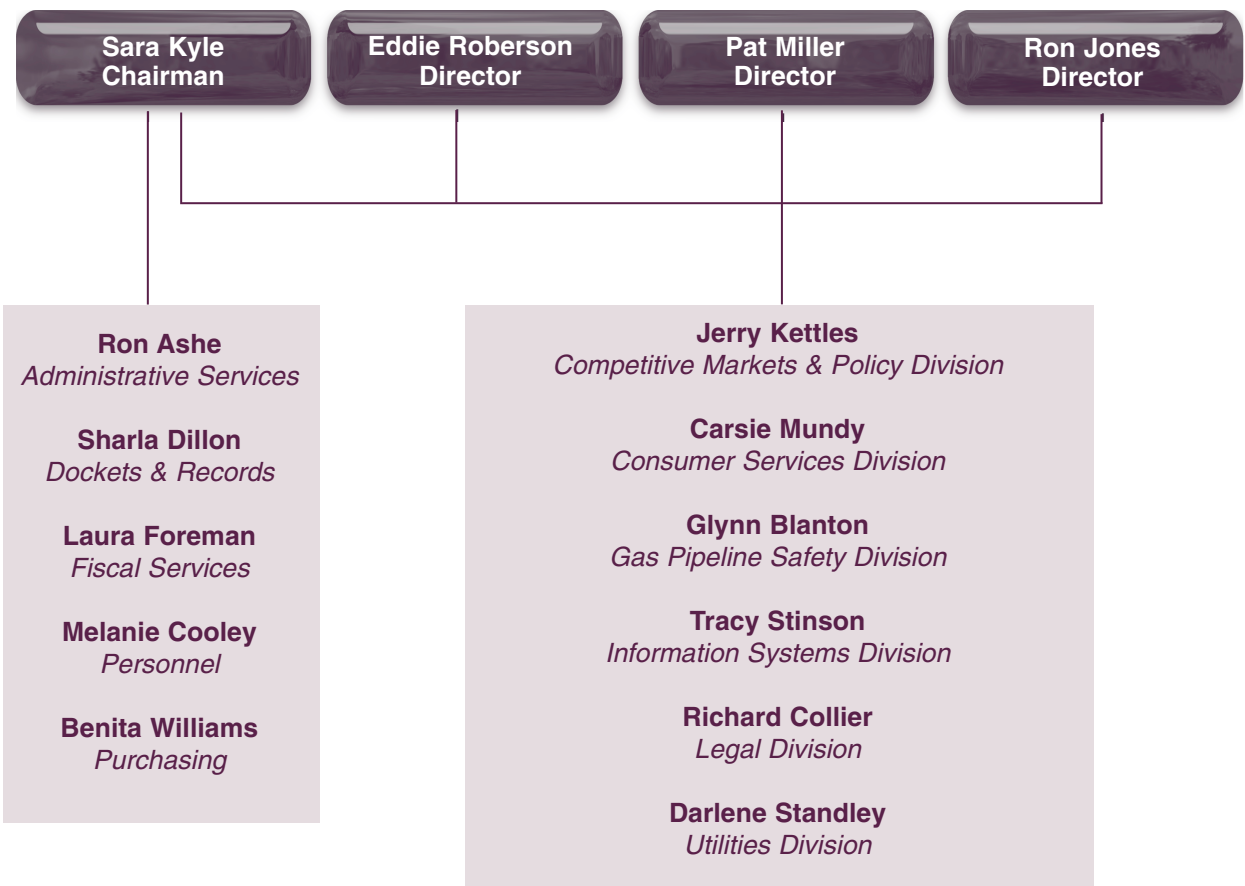
Directors deliberate at an Authority conference.

As of June 30, 2006, the Authority was budgeted for 81 positions. The divisions and staff positions within each are as follows.

Directors	4
Directors' staff	8
Administrative staff	8
Consumer services	12
Utilities	15
Gas pipeline safety	6
Information technology	3
Legal	6
Competitive markets and policy	5
Total Staff Positions	67



Organizational Structure



Utilities under the Authority's Jurisdiction

The following are the approximate number of utilities under the jurisdiction of the Tennessee Regulatory Authority as of June 30, 2006.

ENERGY AND WATER	
Electric	3
Natural gas companies**	6
Water and waste water	17
Methane gas provider	1
TELECOMMUNICATIONS	
Competing telephone service providers	115
Customer-owned coin operator telephone providers	194
Incumbent telephone companies	18
Resellers and operators service providers	222
Long distance facility providers	6
GAS PIPELINE SAFETY	
Direct sales*	22
Intrastate pipeline*	8
Liquefied natural gas (LNG) operators*	2
Master meters*	34
Municipalities*	72
Utility Districts*	25
TOTAL PUBLIC UTILITIES	738

*These entities are regulated by the Authority only to ensure compliance with Minimum Federal Safety Standards for the transmission of natural gas.

**The Authority also has jurisdiction over these companies' gas pipeline safety.



THE OFFICE OF THE CHAIRMAN

MISSION:

The Office of the Chairman serves as the TRA's chief administrative officer with the power and duty to conduct the ordinary and necessary business in the name of the Tennessee Regulatory Authority.

The duties of the chairman's office include, but are not limited to, the following:

- Serve as the chief operating officer of the Authority responsible for the supervision and hiring of all joint staff members and ensuring that all divisions operate efficiently.
- Recommend to the Authority such rules and policies as necessary and appropriate to efficiently and economically provide internal management of the Authority;
- Coordinate the preparation of the annual report to the General Assembly as required by Tennessee Code Annotated Section 65-1-111;
- Keep the official record of all proceedings and transactions of the Authority;
- Schedule, prepare and call the docket for the Authority's hearings;
- Prepare and distribute the Authority's conference agendas;
- Coordinate and expedite matters pending before the Authority;
- Serve as the Authority's designated contact for all media inquiries;
- Oversee the expenditure of funds and compliance with all applicable provisions of state and federal law in receipt and disbursement of funds;
- Prepare the annual budget.



Chairman Sara Kyle, far left, Shirley Frierson and Thomas Pearson.



Budget Summary

Appropriations, Fees and Expenses

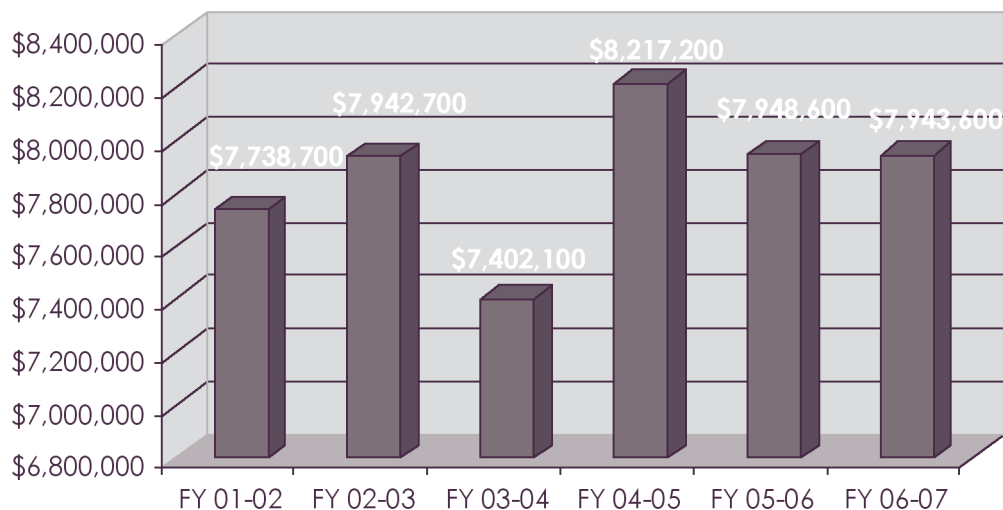
The Authority began fiscal year 2005-2006 (FY05-06) with a budget of \$7,948,600, which was a 3.4 percent decrease from the FY04-05 budget of \$8,217,200. This decrease was attributable to a one-time \$400,000 legislative appropriation during FY04-05 to the 2-1-1 program.

Utility inspection fees accounted for most of the Authority's total revenues of \$6,732,368 during FY05-06. The inspection fees are paid by public utilities the Authority regulates, and the majority of the fees are based on the annual gross intrastate revenues of those public utilities. All inspection fees are legislatively mandated to be used to defray the cost of regulation by the Authority.

Since the inception of the Authority on July 1, 1996, inspection fee revenue has increased an average of 3.34 percent a year. Total inspection fee revenue for FY05-06 was \$5,667,788. In addition to the inspection fee revenue, during FY05-06 the Authority received \$329,950 in federal revenue, \$361,200 in registration fees from telemarketers for the "Do Not Call" program, \$360,907 in fines and penalties and \$12,523 in filing fees. All of these revenues are earmarked for the public utilities account.

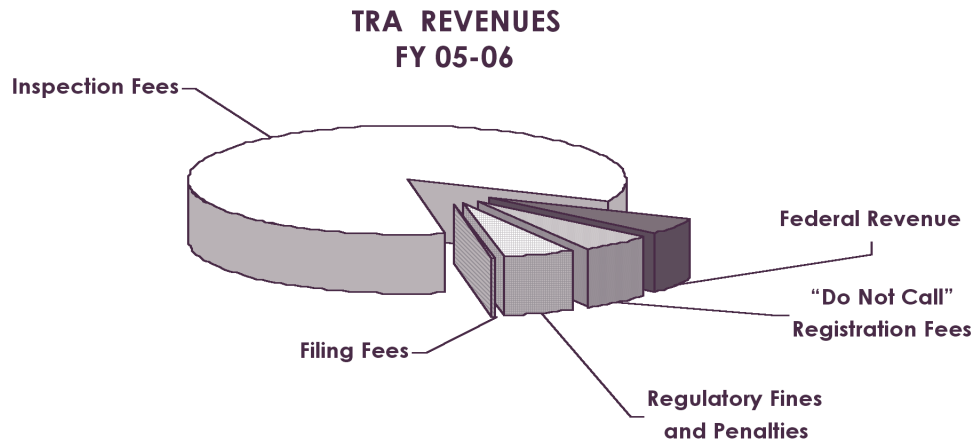
No money in the Authority's FY06-07 budget of \$7,943,600 will come from the state's general fund. Therefore, the Authority is financially sound and is able to operate efficiently and productively.

TRA BUDGET SUMMARY



FY 05-06 REVENUES

Inspection Fees	\$5,667,788
Federal Revenue	\$329,950
"Do Not Call" Registration Fees	\$361,200
Regulatory Fines and Penalties	\$360,907
Filing Fees	\$12,523
TOTAL REVENUES	\$6,732,368



DOCKET ROOM AND AUTHORITY ACTIVITY

TRA directors conduct the business of the Authority through regularly scheduled Authority Conferences. The official minutes of the conferences are kept in the Docket Room and are available for public inspection during regular business hours. The minutes show every action taken by the Authority and are prepared in a manner permitting immediate ref-

erence to the actions of the Authority. The Docket Room also maintains all filings made with the Authority and updates the official calendar of the agency. In addition to paper files, the Authority maintains an electronic file room on its Web site which contains all documents filed since January 1, 1999.

The following information is available in the Docket Room:

- Docket numbers
- Name of applicants/petitioners
- Subject matter of applications/petitions
- Dates of final orders
- Summaries of Authority action

VOLUME OF DOCKETED PROCEEDINGS BEFORE THE AUTHORITY FOR FISCAL YEAR ENDING JUNE 30, 2006

This chart presents an overview of docket activity since fiscal year 2003.

Type of Docket	Fiscal 2003 (7/1/02 – 6/30/03) 449	Fiscal 2004 (7/1/03 - 6/30/04) 448	Fiscal 2005 (7/1/04 - 6/30/05) 495	Fiscal 2006 (7/1/05 - 6/30/06) 379
Arbitrations	-	15 ^{***}	1	2
Inconx/Resale Agreements and/or Amendments	155	131	214	156
E&W PGAs, Audits, Tariffs, CCN Amendments*	100	36	20	43
Customer Service Div. Staff Investigations	7	8	3	2
CCNs	21	26	47	16 ¹
COCOTS	98	73 ^{***}	47 ⁺⁺	22 ²
Name Changes	-	16 ^{***}	19	9
Resellers	-	40 ^{***}	41 ⁺⁺	28 ³
N11 / Pooling	-	15 ^{***}	16	19
Rulemaking	-	2 ^{***}	6	1
Telecom Tariffs/ promotions Dockets	103*	23	11	0
Trsfr Ctrl, assets, bankruptcy, customer letters	38	36	47	58
Misc (not otherwise listed above)	30	27	23	23
	449	448	495	379
	-	-	431 New	344 New
	-	-	64 Reopened	35 Reopened

*Additional audits and tariff are filed through the Utilities Division without docket activity.

**Previously included under "Misc."

***COCOTS, Name Changes, Resellers were combined for the 2004 fiscal year. Fifty-two of these dockets were reopened for cancellation or revocation of authority.

++ 35 COCOT dockets and 29 Reseller dockets were reopened fiscal year 2005 for cancellation or revocation of authority.

¹ 4 CCN dockets were reopened fiscal year 2006 for cancellation of authority.

² 17 COCOT dockets were reopened for cancellation or revocation of authority.

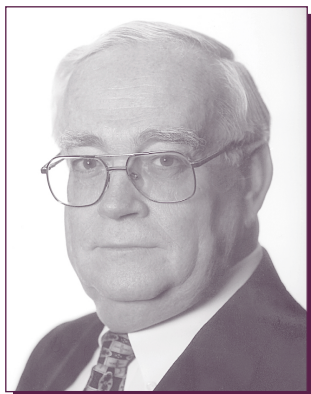
³ 14 Reseller dockets were reopened for cancellation or revocation of authority.



CONSUMER SERVICES AND EXTERNAL AFFAIRS DIVISION

MISSION:

To ensure consumers receive an adequate level of service from regulated companies and to educate consumers regarding changes and new programs in the regulated utility sector. This mission is accomplished through consumer outreach, monitoring services utilities provide using quality of service reports and tests, initiating investigations, and mediating consumer-utility disputes resulting from consumer complaints.



Carsie Mundy
Chief

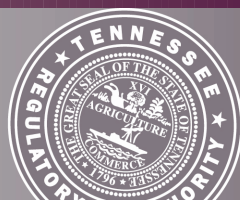
The Consumer Services Division (CSD) is responsible for monitoring the quality of services provided by regulated utilities and enforcing the rules and regulations of the Authority. One aspect of this responsibility is to investigate and mediate consumer complaints filed against regulated utilities pursuant to T.C.A. §§ 65-4-119 and 65-4-401 et seq. The CSD also performs other functions such as providing consumer education/outreach – including developing and implementing programs

to educate the public on various utility issues -- administering the Do Not Call initiative through the registration of telemarketing companies and maintaining the Do Not Call Register; administering the Do Not Fax Program, designed to prevent unsolicited faxes; and qualifying/certifying Lifeline and Link-up Telephone Assistance Program candidates based on income.

The CSD administers the Telecommunication Devices Access Program (TDAP), which is designed to improve access to the telephone network by distributing equipment to assist individuals with disabilities. Additionally, the CSD monitors the operation of the Tennessee Relay Center for individuals with a hearing loss or speech disability.

The CSD conducts service hearings, community outreach meetings and utility service audits; provides testimony at utility proceedings, and provides recommendations in enforcement actions involving utilities not in compliance with state law or the rules and regulations of the Authority.

The CSD staff consists of a chief, deputy chief, program administrators, administrative service assistants, consumer protection specialists and a secretary.

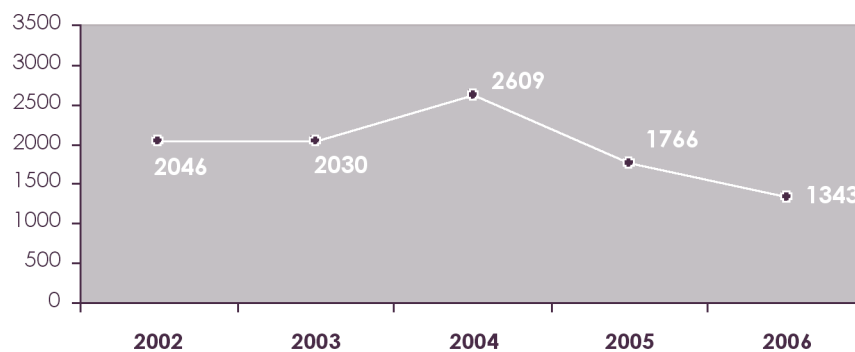


2006 CONSUMER SERVICES ACTIVITY HIGHLIGHTS

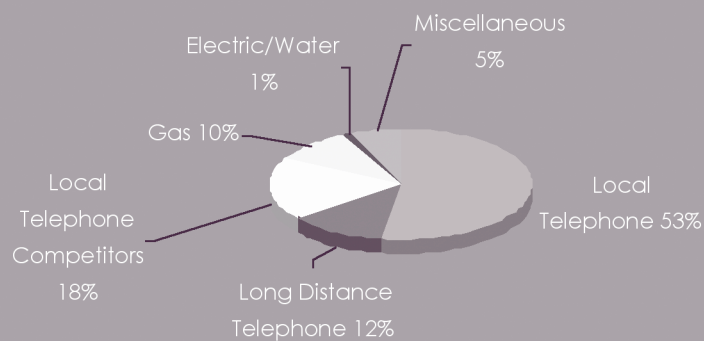
REGULATING AND INVESTIGATING CONSUMER COMPLAINTS

- **Investigated: 1343** consumer complaints against regulated utility companies.

**Total Regulated Complaints Investigated
2002 - 2006**

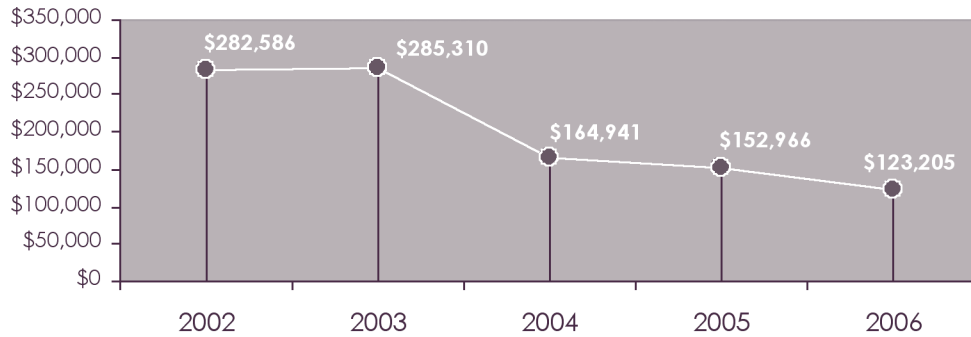


2005-2006 Complaints by Utility Sector



Assisted in securing **\$123,205** in refunds for consumers as a result of investigations.

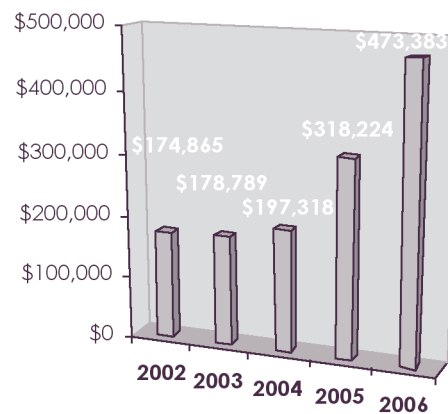
Consumer Complaint Refunds 2002 - 2006



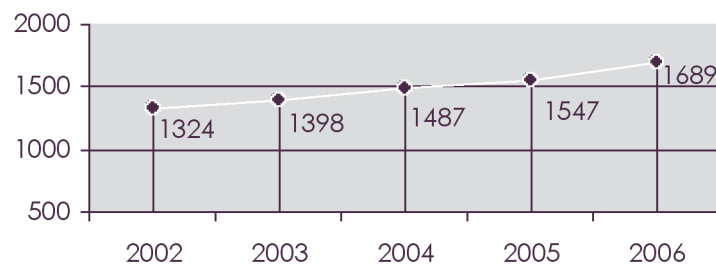
Initiated enforcement action against regulated utilities resulting in **\$37,200** in fines being assessed.

Distributed 1689 TDAP devices, costing **\$473,384**, to 1473 Tennessee residents needing assistive communication devices.

TDAP Device Distribution 2002 - 2006

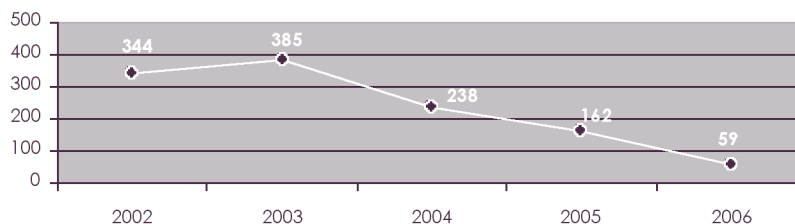


TDAP Devices Distributed



Investigated **59 complaints** against telephone companies for slamming (the unauthorized switching of a consumer's phone service). A total of **\$1,513 was refunded to consumers** from companies found not to have proper authorization to switch the customer's service.

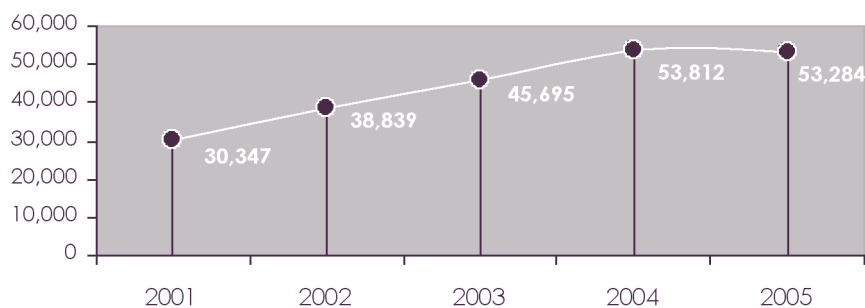
**Slamming Complaint Investigations
2002 - 2006**



Administered the Link-up Telephone Assistance Program. This program assists low-income citizens by reducing the installation charge to establish or transfer local telephone service. Eligible telecommunications carriers claimed \$103,841; thereby passing the savings to 5805 recipients who utilized the Link-up telephone assistance program in Tennessee.

Administered the Lifeline Telephone Assistance Program. This program assists low-income citizens by reducing up to a maximum of \$13.50 on their monthly telephone bill. As of June 30, 2006, there were 48,452 recipients utilizing the Lifeline telephone assistance program in Tennessee.

**Tennessee Lifeline
Telephone Assistance Subscribers
2001 - 2005**



*2001-2005 are based on a calendar year, and reflect the total consumer's signed up at the end of that calendar year.

Reviewed the operations of the Tennessee Relay Center (TRC) to ensure that it is complying with the Authority's rules and regulations. The TRC helps individuals with hearing loss and speech disabilities make and receive telephone calls. The TRC processed approximately 500,000 calls during the 2006 fiscal year.

¹ USAC – Tennessee Data. Figures are from January 1, 2005 through March 31, 2006

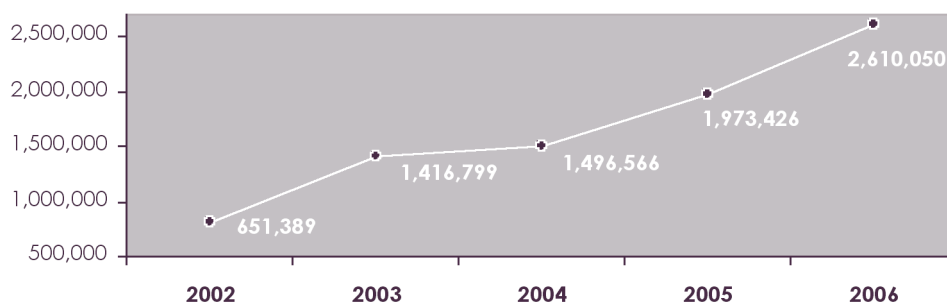


Reviewed the operations of the Tennessee CapTel Service to ensure that it is complying with the Authority's rules and regulations. The CapTel Service uses a captioning feature to help individuals who are late deafened or hard of hearing make and receive telephone calls. The CapTel Service processed approximately 60,000 calls during the 2006 fiscal year. The CapTel Service began in Tennessee in November 2005. About 320

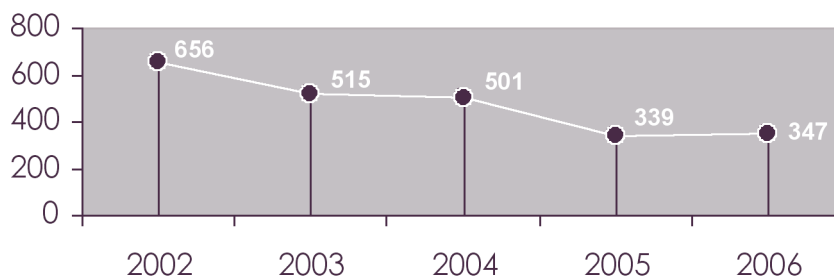
Tennesseans are using the CapTel Service.

Administered the Tennessee "Do Not Call" Program. At the end of fiscal year 2006, 2,610,050 Tennesseans and 546 active telemarketers were registered with the Authority. The Authority investigated 347 Do Not Call telemarketing complaints by consumers against telemarketing companies during the 2006 fiscal year.

Consumer Registration History Do Not Call List

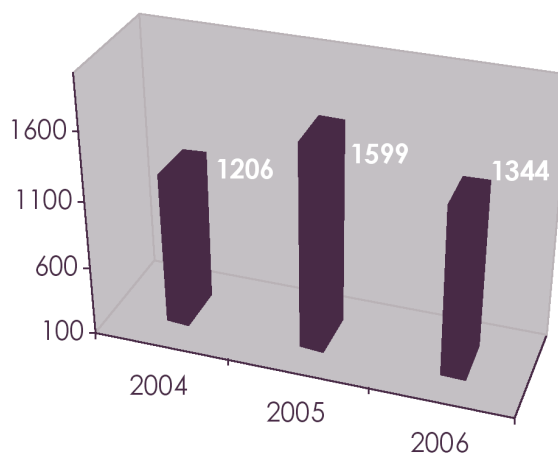


Telemarketing Complaint Investigations 2002 - 2006



Do Not Fax Complaint Investigations 2004 - 2006

Administered the **Tennessee "Do Not Fax" Program**. The Authority has investigated **1344** fax complaints from consumers involving unsolicited facsimiles during the fiscal year 2006. This represents a 16 percent decrease from fiscal year 2005.



COMPETITIVE MARKETS AND POLICY DIVISION (CMPD)

MISSION:

To provide research, analysis and advice to the directors and staff in the areas of economics, competition and public policy.

The Competitive Markets and Policy Division investigates and formulates recommendations on cost, pricing and rate design, allegations of anticompetitive practices and other economic issues. The division identifies and analyzes market trends, monitoring and evaluating the impact of Authority decisions on market outcomes in the various regulated industries. The Division has the primary responsibility of reviewing applications and making recommendations concerning the approval of mergers, acquisitions and the issuance of financial instruments by Tennessee's public utilities. The division also provides analysis associated with various economic matters in numerous proceedings before the Authority. In addition, this division is responsible for evaluating the random assignment of dockets to voting panels of Directors, a system which was put in place on July 1, 2002.

The Competitive Markets and Policy Division plays an active role in a number of initiatives involving the Authority. The division serves as an information, analysis and planning resource for a variety of regulatory and utility issues for both the current and future state of Tennessee's utility sector.



Jerry Kettles
Chief

The following are just some of the areas where the Competitive Markets and Policy Division has played a role:

Serving as Information Resources

Division personnel support the TRA in rate cases by analyzing the cost of capital, assisting with rate design and providing expert witness testimony as required.

Examining Emerging Technologies

The General Assembly created the Broadband Task Force for the purpose of examining the statewide deployment of broadband including regulation, cost, access to facilities and market competition. The Competitive Markets and Policy Division plays a supporting role by assisting the Broadband Task Force in accomplishing its mission.

Monitoring National Actions and Policies

Congress is considering legislation that would rewrite portions of the 1996 Telecommunications Act. The division helps keep the Authority current on such pending legislation. The division also monitors policy and legislative issues relating to provisioning E911 service over Voice over Internet Protocol (VoIP) telephony services.

The rapid increase in natural gas prices has created significant burdens for consumers, especially those with limited resources. To meet the need for current information on this topic, the division monitors and distributes regular reports on wholesale natural gas prices to the Directors and staff of the Authority to educate consumers on methods of energy conservation.



Analyzing Industry Trends

The CMPD monitors the quality of wholesale service that BellSouth provides to its competitors through regular reports to the Authority highlighting and explaining significant trends.

Developing Networking and Information Sharing Relationships

The division participates actively in professional meetings, such as the National Association of Regulatory Utility Commissioners (NARUC).

RESULTS

Regulatory relief and industry mergers have significantly altered the nature of competition in the wireline telecommunications industry, creating new challenges for policymakers concerned about ensuring a healthy competitive environment. During this fiscal year, the Authority examined and approved the pending AT&T-BellSouth merger which, if approved by the Federal Communications Commission, could strengthen the state's largest incumbent local exchange carrier.

The CMPD reviews and recommends approval of certain transactions by public utilities, including mergers, acquisitions, issuance of new financial instruments and transfers of authority, control and customer base. During the past year, the division has reviewed three mergers, two acquisitions, 19 financing transactions, 42 transfers of control or customer base and 13 company name changes.

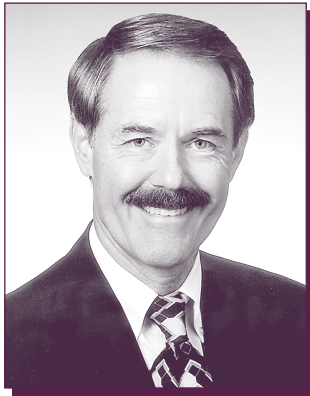


GAS PIPELINE SAFETY DIVISION

MISSION:

To protect the public and environment from accidental release of natural gas or hazardous liquid products by pipeline.

The Gas Pipeline Safety Division (GSPD) provides this protection by implementing a technologically advanced compliance program that promotes educational standards for industry and contributes to the health and security of Tennessee citizens.



Glynn Blanton
Chief

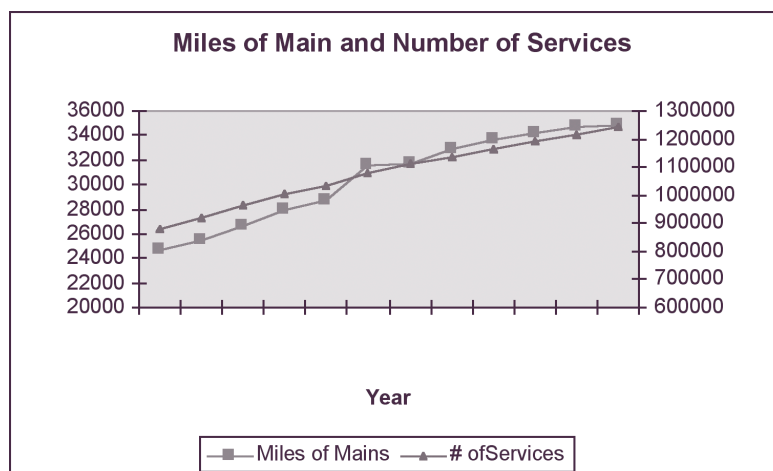
has statutory authority and enters into an annual agreement with the transportation secretary. The Authority has been designated the appropriate agency in Tennessee to prescribe and enforce these safety standards. The GSPD is charged with enforcing the minimum federal safety standards adopted by the agency. The regulations provide the standard and practice each natural gas operator must follow to insure safe and reliable service to its customers. The GSPD



has jurisdiction over all natural gas distribution operators in Tennessee. Natural gas distribution companies collectively operate 35,000 miles of intrastate pipeline and three liquefied natural gas facilities. These 169 distribution operators are comprised of 192 individual inspection units and serve more than 1.1 million customers. Tennessee's largest natural gas distribution system is Memphis Light, Gas & Water, which serves 300,000 customers. Powell Valley Utility District, which serves 19 customers, is the smallest.

Gas Pipeline Safety Compliance Program

The accountable Pipeline Safety and Partnership Act of 1996, 49 U.S.C., § 60101 et seq., requires the secretary of transportation to establish minimum federal safety standards (MFSS) for the transportation of natural gas and hazardous liquids by pipeline. The secretary is authorized to delegate to an appropriate state agency the authority to prescribe safety standards and enforce compliance with such standards, provided the agency

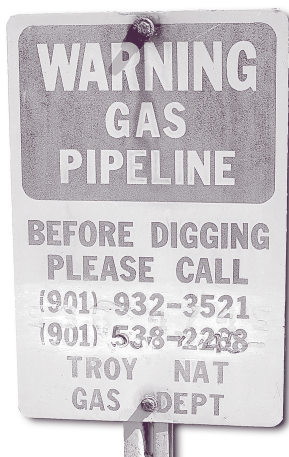


The minimum federal safety standards are the backbone of the GPSD inspection program. Annual inspections help provide the citizens of



Tennessee the highest possible level of protection from the accidental release of natural gas. These inspections cover a range of areas including, but not limited to, the operator's facilities, records and construction projects. A natural gas operator may be visited numerous times each year. Citations and fines are issued when operators are found to be in non-compliance with Authority rules and regulations. The GPSD has the authority under TCA § 65-28-108 to levy civil penalties. The most recent civil penalty assessed against a Tennessee natural gas operator was \$13,000 in 2005. The operator was fined because of failure to follow operating procedures and emergency response procedures which resulted in a natural gas incident causing personal injury to an employee. The maximum penalty to date is \$184,000, occurring in 1989. See Violations and Civil Penalties for more information on how civil penalties are addressed.

Calendar year 2006 marks the tenth year the GPSD has submitted a section 60105 agreement and been approved by the U.S. Department of Transportation Pipeline & Hazardous Material Safety Administration (PHMSA) to carry out an enforcement program for the safety regulations contained in Parts 191, 192, 193 and 199 of the Code of Federal Regulations. These regulations are Enforcement Procedures, Safe Transportation of Natural Gas or Hazardous Liquids by Pipeline, Liquefied Natural Gas Facilities, and Drug & Alcohol testing. The federal agreement section 60105 provides federal matching funds in an amount up to 50 percent of actual



program expenses. The federal funds are distributed through a grant-in-aid reimbursement provision and are tied to the division's federal performance evaluation score. A performance level of 90 percent or greater insures full 50 percent funding.

In 2006, the GPSD received a perfect score of 100%, an increase of two percentage points from the previous year.

The GPSD employs a chief and five engineers who receive extensive training to inspect natural gas pipeline systems. Training must be completed within their first three years of employment. Nine one-week natural gas safety courses and eight computer-based integrity management for transmission lines training courses are required. These courses are provided by the Federal Transportation Safety Institute in Oklahoma City, Oklahoma. Additional refresher and computer-based courses are required in order for the engineer to maintain inspection status.

Natural Gas Operator Inspections

In Tennessee, 169 local distribution companies (LDCs) fall under the Authority's jurisdiction.

They include six private, 72 municipals, 25 utility districts, 34 master meters, 22 direct sales, two liquefied natural gas, and eight intrastate pipelines. Several LDCs operate facilities in many different areas of the state, and each facility is treated as a separate "inspection unit." Each unit is inspected at least once a year, but, more often, receives as many as two to three different inspections to help ensure that all operators are complying with the minimum federal safety standards. Operators are required to maintain records, compile reports, update operations and maintenance plans, and promptly repair all hazardous leaks. Drug and alcohol programs are reviewed annually to ensure that required testing is being conducted. The chart below indicates the inspection activity between July 2005 and June 2006.



Natural Gas Incidents

The Minimum Federal Safety Standards §191.3

defines an incident as any of the following: 1) an event that involves a

release of gas from a pipeline or liquefied natural gas or gas from an LNG facility and i) a death or personal injury necessitating in-patient hospitalization; or ii) estimated property damage, including cost of gas lost, of the operator or others, or both, of \$50,000 or more, 2) an event that results in an emergency shutdown of an LNG facility, 3) an event that is significant, in the judgment of the operator, even though it did not meet the criteria of parts 1 or 2. One reportable incident occurred in the past fiscal year. The incident resulted in one personal injury.



Failure to take corrective action on cited violations could subject the operator to civil penalties in accordance with Tennessee Code Annotated §65-28-108. There were 109 violations cited and 145 violations corrected during this fiscal year. (Violations corrected include those cited from previous years.)

Tennessee Code Annotated §65-28-108 states: “Any person who violates any provisions of the adopted minimum federal safety standards is subject to a civil penalty not to exceed ten thousand dollars (\$10,000) for each such violation for each day that such violation persists, except that the maximum civil penalty shall not exceed five hundred thousand dollars (\$500,000) for any continuing series of violations.” One civil penalty was levied against an operator this fiscal year.

Inspection Type	Number
Standard	106
Specialized	88
Follow-Up	125
Construction	10
Incident	3
Training	11
Integrity Management	3
Operator Qualification	48
Liquefied Natural Gas	7
Total Inspections	401

Violations and Civil Penalties

The violations cited by the GPSD against an operator are recorded and filed on an ongoing basis. Each operator receives verbal and written notices of the violation(s) and is given 60 days from receipt of the written notice to correct any deficiencies that may have warranted a citation. A follow-up inspection is scheduled after the 60-day time period to ensure that the operator is taking action to correct these violations.



Integrity Management for Local Distribution Companies

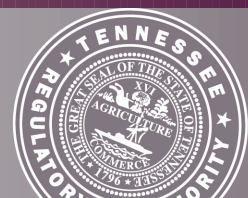
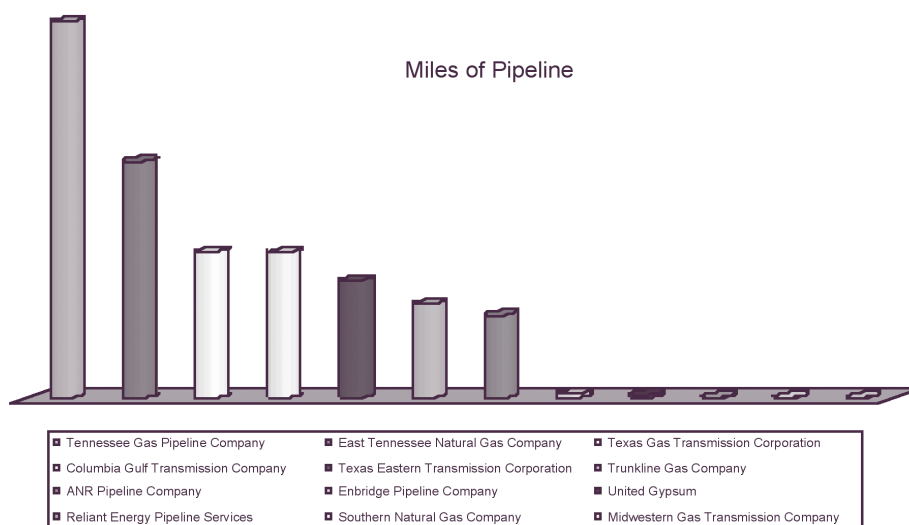
In December 2004, discussions and an open meeting between gas industry and PHMSA representatives took place regarding a distribution integrity management regulation for natural gas operators. As a result, in March 2005 PHMSA established four task teams and a coordinating group to begin review and development of the regulation. The committee and task teams were made up of representatives from state and federal government regulatory agencies, industry, public, American Gas Association, and American Public Gas Association who developed the foundation for a high-level, flexible, performance-oriented regulation. The GPSP participated fully in the entire process. The task teams developed a report for the coordinating group which then provided a final report and recommendation to the executive steering committee in December 2005. During the remainder of 2005 (Phase 1) work/study groups gathered and analyzed data, and developed the elements of a safety improvement program. The report was released in December 2005. During the following year (Phase 2) PHMSA, state regulatory and pipeline standards development organizations, Gas Piping Technology Committee (GPTC), will work to develop requirements, guidelines and standards that will be implemented using some combination of four options favored by a consen-

sus of the stakeholder group who worked on the Phase 1 report. Those options are as follows.

- **The first option is a high level, risk-based, performance-oriented Federal regulation.**
- **The second option is supplemental information through one or more guidelines or national consensus standards describing choices on how the spectrum of distribution pipeline operators might apply fundamental risk-based principles to achieve the desired improvements. States would then have the opportunity to draw on the standards and guidance to promulgate regulations describing how the unique set of operators they regulate should implement improvements satisfying the Federal requirements.**
- **Third is a structured nationwide education program on preventing excavation damage, focused on the new 811 one-call program.**
- **The final option is development of innovative safety technologies capable of producing observable safety improvements.**

The guideline and standards manual is anticipated to be published by GPTC after the release of the proposed rule on integrity management for distribution by PHMSA in November 2006. The new rule will have an impact on the GPSP program and operators under its jurisdiction.

FYI: Tennessee Interstate Pipeline Companies



Underground Utility Damage Prevention and 8-1-1:

Damage prevention continues to be a top priority for the Authority and the GPSD.

Recent amendments to the law require:

operators who

use the same color code to include their company initials in the markings of their facilities; persons responsible for the excavation to designate the location of the proposed area of excavation by marking the area with "safety white" color-coded stakes or other marking devices; and facility operators to notify Tennessee One-Call Systems that it has marked all its facilities or that the operator does not have facilities in the proposed excavation area. These changes will help to reduce damages to all underground facilities. The national Dig Safely.® campaign four-part message (Call before you dig; Wait the required time; Respect the marks; and Dig with care) continues to be a successful awareness campaign used by all Tennessee natural gas distribution systems in protecting their underground facilities.



The Pipeline Safety Improvement Act of 2002 provided a tool to enhance the effectiveness of the Dig Safely.® program by requiring a nationwide three-digit number for use in dialing one call centers be implemented. Tennessee was the first state to move forward with the assignment of this number designed by the FCC as 8-1-1. The three-digit number "811" was granted to Tennessee One Call System, Inc. on August 8, 2005 by the Authority. The new nationwide "811" logo and tag line, "Know what's below. Call before you dig." developed by the Common Ground Alliance will be available and implemented in all states by April 13, 2007.

Public Awareness – Recommended Practice (RP) 1162:

As mandated by Federal statute, local distribution operators are now required to develop a public awareness program which will educate the general public, as well as the natural gas customers, on how to recognize the presence of natural gas and

how to respond to a natural gas emergency. The Public Awareness Program Plan documentation should outline the objectives of the plan, state the policy of the plan, identify key personnel involved in the development and implementation of the plan, identify all stakeholder audiences, develop the desired message, develop the desired message conveyance format, develop an effective frequency interval to convey this message to each stakeholder audience, develop a framework and schedule for the implementation of the plan and develop a feedback system to quantify and measure the effectiveness of the program throughout each of the benchmarks outlined in the program plan and framework, as well as maintain records which are generated to support each of these activities.

The Authority has elected to use a federal clearinghouse to receive and evaluate each of these Public Awareness Program Plans. Operator progress in these efforts is surveyed during the course of annual inspections. In many cases, assistance is provided to the operators regarding material submissions and procedures. Once the clearinghouse has evaluated these plans, operators who may have an area which appears to be deficient will be contacted to help assist and resolve any areas of concern.

The desired end result will be a general public which is informed about how to identify the presence of natural gas and what to do in case of an emergency. Each operator will have ongoing methods of measurement regarding the effectiveness of their Public Awareness Program, including the initial benchmark of general public knowledge. Each operator will measure their effectiveness and develop methods to increase their effectiveness when necessary to educate the general public regarding natural gas and natural gas safety.



Operator Training:

During fiscal year 2005-2006, the GPSD in conjunction with the Tennessee Gas Association (TGA) conducted seven training seminars with attendees from 19 Tennessee natural gas systems, one Mississippi natural gas system, one Kentucky natural gas system, and two Tennessee contractors. These seminars consist of PowerPoint presentations, videos, classroom discussions, and testing on safety issues related to performance of job tasks. During the fiscal year, 42 PowerPoint presentations have been developed regarding such topics as cathodic protection, carbon monoxide testing, excavation and shoring safety, damage prevention, locating and marking facilities, and controlling accidental release of gas. A total of 167 individuals participated in the seminars with 159 successfully completing the course work. This represents a participant success rate of 95 percent. This continuing initiative is the result of a federal mandate, operator qualification rule, for gas pipeline operators to evaluate their personnel to ensure that they have the knowledge, skills and abilities necessary to perform covered tasks while operating a natural gas pipeline facility. In addition, they must be able to recognize abnormal operating conditions and be able to take appropriate action if these conditions occur.

The TGA has established an online training program which allows employees of gas systems to receive knowledge based training at their home or office location at times that are convenient to them. The program has been well received and as a result TGA has greatly reduced scheduled off site classroom training.

Welding Program:

Minimum Federal Safety Standards (MFSS) require that welding on natural gas pipelines be performed by qualified welders utilizing qualified welding procedures. In order to become a qualified welder an individual must perform a specimen weld which is subjected to destructive testing.

Welding standards, incorporated by reference into MFSS, describe the procedures to follow in performing these tests of the specimen weld. This destructive testing is performed at a Tennessee Technology Center or a private facility equipped to perform such tests, and results are forwarded to GSPD for review by staff. Only welders who possess the skills and abilities to produce welds which pass these rigorous tests are issued qualification cards. During this fiscal year approximately 380 welding qualification cards have been issued to contractor and utility employees who weld on natural gas piping.



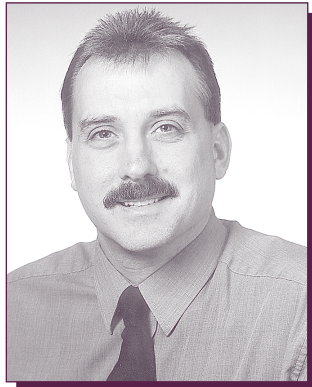
INFORMATION SYSTEM DIVISION

MISSION:

To provide effective and continually improving information system products and services to the Authority.

Procuring, developing, implementing, and managing information systems technology in support of the Agency's objectives is the primary goal of the Information System Division (ITD).

The division consists of an IT director, an information systems resource specialist III, and an information systems resource specialist II.



Tracy Stinson
Chief

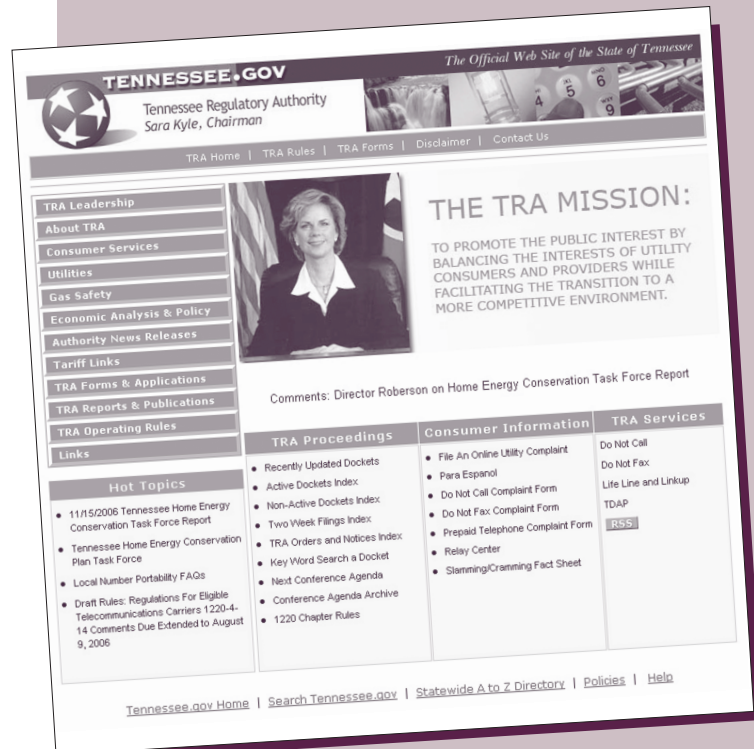
Duties of the Information System Division:

- Plan and coordinate information system resources for the Authority
- Develop the three year Information Systems Plan
- Oversee the administration of the (LAN) local area network
- Maintain computer systems
- Develop new software systems
- Enable and enforce system security
- Coordinate information resource training
- Administer databases
- Maintain mainframe and (LAN) local area network system security
- Oversee computer hardware inventory management
- Provide technical support and training to agency staff

TRA Web site

The IS division is also responsible for the technical aspect of the Web site. The IS division ensures that information presented on the Web site is updated and accessible to its end users.

The TRA Web site, URL address www.state.tn.us/tra, provides information about the Tennessee Regulatory Authority. The Authority's Web site offers a convenient medium by which users may learn about special programs that reduce unwanted fax advertisements and telephone solicitation calls, sign up for telephone assistance programs, learn about telecommunications services and programs that aid the deaf, blind and speech impaired, or how to file a consumer complaint.



The following are just a few of the items that can be found on the Authority Web site.

- Descriptions of the Authority divisions
- Regulatory cases
- Directors Conference agendas
- Press releases
- TRA rules and regulations
- Special reports
- Appeals and petitions to the Federal Communications Commission
- TRA orders
- Information related to natural gas pipeline safety
- Links to relevant partner organizations such as the National Association of Regulatory Utility Commissioners, the Federal Trade Commission, the Federal Energy Regulatory Commission, and American Gas Association

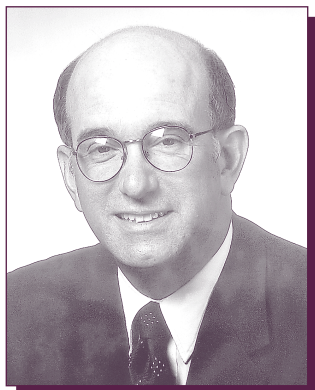
www.state.tn.us/tra



LEGAL DIVISION

MISSION:

To provide the Tennessee Regulatory Authority with sound and timely legal advice, effective counsel in the deliberative process, and zealous representation before state and federal agencies, reviewing courts and the General Assembly.



Richard Collier
Chief

The Legal Division has the responsibility of providing in-house counsel to the directors of the Authority. Attorneys from the division also represent the Authority and the directors in their official capacities before the Chancery Courts, Tennessee Court of Appeals, Tennessee Supreme Court and in the federal courts. The Legal Division represents the Authority before the Federal Communications Commission and the Federal Energy Regulatory Commission. Members of the Legal Division often serve as hearing officers in contested cases and prosecutors in enforcement actions before the Authority. Division attorneys are responsible for bill analysis as requested by the General Assembly's Fiscal Review Committee. They also assist in drafting rules to be promulgated by the Authority and prepare orders reflecting actions of the directors in specific cases.

ACCOMPLISHMENTS

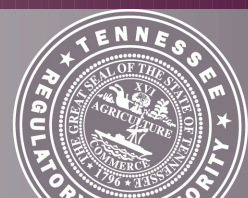
During the past fiscal year, 379 dockets were opened requiring action by the Authority. Members of the Legal Division provided continuing research, document preparation and counsel to the directors and staff in most of these dockets. The Legal Division also prepared more than 502 orders related to action by the Authority in active dockets including tariff matters, contested cases, mergers, debt issuances, transfers of authority, approvals and revocations of certificates of public convenience and necessity, franchise approvals, arbitrations and show cause actions.

Members of the Legal Division provided counsel to

the Authority in rendering decisions on BellSouth's and United Telephone-Southeast's 2005 price regulation filings. The Legal Division assisted in the promulgation of public necessity and permanent rules establishing guidelines for the bonding and regulation of wastewater companies. The Legal Division also participated in other rulemaking proceedings for the purpose of addressing recent statutory amendments pertaining to telecommunications carriers.

The Legal Division participated in hearings that were conducted on applications for certificates of public convenience and necessity and approval of franchise agreements filed by competing local exchange telecommunications carriers and gas companies, and in proceedings setting rates for gas, water and wastewater treatment utilities. Attorneys from the Legal Division also served as hearing officers and provided counsel to the Authority in complaints between competing local exchange telecommunications carriers and incumbent local exchange telecommunications carriers. The Legal Division provided counsel to the Authority in arbitrations of interconnection agreements pursuant to the federal Telecommunications Act of 1996. The Legal Division participated in several dockets in which wastewater service providers brought disputes over services and territory to the TRA for resolution.

The Legal Division took action to enforce Tennessee's Do-Not-Call and Do-Not-Fax programs as well as slamming and cramming statutes, with the assistance of the Consumer Services Division, by commencing show cause proceedings against non-compliant companies. The Legal Division assisted the Gas Pipeline Safety Division with several accident investigations. The Legal Division filed a petition in Macon County Chancery Court and obtained an order placing RBS Gas Utility, Inc. into receivership for failing to comply with regulatory requirements and failing to properly operate the gas distribution system in Red Boiling Springs. Members of the Legal Division assisted in the investigation and initiation of an action wherein the TRA is examined the rates of Atmos Energy Corporation.



2005-2006 Case Activity Highlights

PETITIONS	RULEMAKING
<p>Docket No. 03-00209 Petition of Chattanooga Gas Co., Nashville Gas Co., a division of Piedmont Natural Gas Co., Inc. and United Cities Gas Co., a Division of Atmos Energy Corp., for a Declaratory Ruling Regarding the Collectability of the Gas Cost Portion of Uncollectible Accounts Under the Purchase Gas Adjustment (PGA) Rules.</p> <p>Docket No. Consolidated 03-00585, 03-00586, 03-00587, 03-00588 & 03-00589 Petitions for arbitration of unresolved issues associated with the attempt of wireless providers to negotiate interconnection and reciprocal compensation agreements with members of the Tennessee Rural Independent Coalition.</p> <p>Docket No. 04-00046 Joint Petition for Arbitration of Newsouth Communications Corp, Nuvox Communications, Inc. KMC Telecom V, Inc., KMC Telecom III LLC, and Xspedius Communications, LLC on Behalf of Its Operating Subsidiaries Xspedius Management Co. Switched Services, LLC and Xspedius Management Co. of Chattanooga, LLC of an Interconnection Agreement with Bellsouth.</p> <p>Docket No. 05-00258 Petition of the Consumer Advocate to Open an Investigation to Determine Whether Atmos Energy Corp. Should be Required by the Tennessee Regulatory Authority to Appear and Show Cause that Atmos Energy Corp. is not Overearning in Violation of Tennessee Law and that It is Charging Rates that are Just and Reasonable.</p> <p>Docket No. 04-00381 BellSouth's Petition to Establish Generic Docket to Consider Amendments to Interconnection Agreements Resulting from Changes of Law.</p> <p>Docket No. 05-00066 Petition for Approval of Verizon Communications, Inc.'s Acquisition of MCI, Inc.</p>	<p>Docket No. 04-00205 Rulemaking for the Purpose of Implementing Toll-Free County Wide Calling Rules.</p> <p>Docket No. 04-00211 Rulemaking to Amend Public Pay Telephone Rules 1220-4-2-.43-.54.</p> <p>Docket No. 04-00251 Rulemaking to Amend Rule Chapter 1220-4-10, Collecting from Telecommunications Providers and Distributing Assistive Telecommunications Equipment to the Qualified Individuals with Disabilities for the Purpose of Complying with 2004 Public Chapter 912.</p> <p>Docket No. 04-00258 Rulemaking to Amend Chapter 1220-4-11 to Further Clarify the Definition of "Telephone Solicitation."</p> <p>Docket No. 04-00284 Rulemaking for the Purpose of Addressing the Provisions of Public Chapter 545 Enacted in 2004, Public Chapter 173 and 270 Enacted in 2005, and the Authority's Decisions Rendered in Docket 03-00391.</p> <p>Docket No. 05-00284 Rulemaking to Establish Criteria for Designating Eligible Telecommunications Carriers in Tennessee.</p> <p>Docket No. 05-00105 Rulemaking for the Regulation of Wastewater Companies.</p>



MISCELLANEOUS

Docket No. 04-00434

Forum to Gather Information on the Certification, Permitting, and Installation of Waste Water Systems.

Docket No. 05-00014

Provision of Enhanced Relay Services, CapTel Services, for the Hard-of-Hearing and the Late-Deafened Citizens of Tennessee.

Docket No. 05-00046

Generic Docket for the Purpose of Examining TRA Rules, Policies and Procedures in Light of Current Trends in Gas Industries.

Docket No. 06-00010

Appropriateness of Implementation of PURPA Standard 11 (Net Metering), Standard 12 (Fuel Sources), Standard 13 (Fossil Fuel Generation Efficiency), Standard 14 (Time Based Metering and Communication) and Standard 15 (Interconnection) for Kingsport Power Company DBA AEP Appalachian Power.

Docket No. 06-00080

Generic Docket to Establish a Rate for Switching Provided Pursuant to Requirements other than 47 U.S.C. § 251.

Docket No. 06-00093

AT&T Inc.'s Proposed Merger with Bellsouth Corporation.

Consumer Advocate v. TRA.

Tennessee Court of Appeals, Petition for Review of the TRA's decision in BellSouth Telecommunications, Inc. Tariff to Establish Welcoming Rewards Promotion, Tariff No. 2003-1366, TRA Docket No. 03-00625.

Consumer Advocate v. TRA.

Tennessee Court of Appeals, Petition for Review of the TRA decision in Promotion to Introduce BellSouth Integrated Solutions Program, Tariff No. 2003-596, TRA Docket No. 03-00512.

Consumer Advocate v. TRA.

Tennessee Court of Appeals, Petition for Review of the TRA decision in Tariff to Establish the Wireless Answers Promotion, Tariff No. 2003-1036, TRA Docket No. 03-00554.

Consumer Advocate v. TRA.

Tennessee Court of Appeals, Petition for Review of the TRA decision in Tariff to Establish Consumer Wireless Combined Bill Reward Offer, Tariff No. 2003-1379, TRA Docket No. 03-00624.

BellSouth Telecommunications, Inc. and United Telephone-Southeast, Inc. filed Petitions for Review in the Tennessee Court of Appeals and the U.S. District Court related to the TRA's decision regarding line sharing and line splitting in the case, Generic Docket to Establish UNE Prices for Lines Sharing Per FCC 99-355, and Riser Cable and Terminating Wire as Ordered in TRA Docket 98-00123, TRA Docket 00-00544.

OTHER COURTS

Consumer Advocate v. TRA.

Tennessee Court of Appeals, Petition for Review of the TRA's decision in BellSouth Telecommunications, Inc. Tariff to Introduce Welcoming Reward Program, Tariff No. 2003-017, TRA Docket No. 03-00060.

US LEC of Tennessee, Inc. v. TRA.

Tennessee Court of Appeals, Petition for Review of the TRA's decision in Complaint of US LEC of Tennessee, Inc. Against Electric Power Board of Chattanooga, TRA Docket No. 02-00562.

Nuvox Communications, Inc. and Xspedius Communications, LLC. filed a Petition for Review in the Tennessee Court of Appeals and a Complaint for Declaratory Relief in the U.S. District Court, both related to TRA Dockets Nos. 04-00046 and 04-00381.

Tennessee Regulatory Authority v. RBS Gas Utility Inc.

Macon County Chancery Court, Verified Petition for Appointment of Receiver, Restraining Order, and Temporary and Permanent Injunction, Case No. 4144.



FEDERAL COMMUNICATIONS COMMISSION

BellSouth Emergency Petition for Declaratory Rule and Preemption of State Action, WC Docket No. 04-245 (related to TRA Docket No. 03-00119).

Rules and Regulation Implementing the Telephone Consumer Protection Act of 1991, CG Docket No. 02-278. The TRA filed comments on more than one occasion opposing Telemarketers' request for federal preemption of state telemarketing law as applied to interstate calls.

Petition of Frontier Communications of America,

Inc. for Preemption and Declaratory Ruling Regarding Tennessee Code Annotated Section 65-29-102 and Related Decision of the Tennessee Regulatory Authority, WC Docket No. 06-6. The TRA filed Opposition to Frontier's Petition.

FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, LLC submits its new Reliability Pricing Model modifying the existing capacity rule in PJM's region to address current inadequacies under ER05-1410 et al.



UTILITIES DIVISION

MISSION:

To provide the TRA directors with detailed analyses, financial recommendations and technical assistance needed to make informed decisions on issues related to the development of competitive markets and the preservation of affordable prices for utility services in Tennessee.



Darlene K. Standley
Chief

The Utilities Division encompasses review of investor owned electric, gas, telecommunications, water and wastewater service utilities operating within the state. Each utility segment has unique characteristics and distinctive federal and state mandates for review. The division is comprised of 17 individuals with diversified experience and background. The staff's credentials and background consist of certified public accountants, paralegal, engineers, economists, accountants and business management. The staff has more than 150 years of combined experience in the utility industry.

ELECTRIC

The Authority regulates three electric utilities in Tennessee. Kingsport Power is rate of return regulated, and tariffs containing rates, terms and conditions are filed with the Authority. Two other utilities, Entergy Arkansas, Inc. and Kentucky Utilities Company, have a very small presence in Tennessee and are regulated by the respective states.

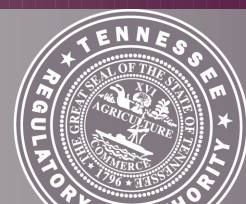
As a result of the blackout in the northeastern United States, the Federal Energy Regulatory Commission mandated the establishment of

regional transmission organizations (RTOs). The purpose of these RTOs is to improve transmission management and grid reliability and remove discriminatory transmission practices. Kingsport Power, through its parent and affiliates, is a member of the PJM RTO.

The Energy Policy Act of 2005 (Energy Act) requires states to review and consider net metering, fuel sources, fossil fuel generation efficiency, time-based metering/communications and interconnection as they relate to electric companies providing service within the state. The Authority reviewed the offerings of Kingsport Power, Kentucky Utilities and Entergy Arkansas to determine each company's compliance with the Energy Act. The Utilities Division researched the feasibility and appropriateness of implementation of these standards as they relate to the above-mentioned companies and assisted the Authority in consideration of these standards.

GAS

The gas industry in Tennessee is comprised of six natural gas companies and one methane gas provider with annual revenues ranging from \$200,000 to \$218 million. While the overall regulation of each company is rate of return, the volatility of the gas commodity costs necessitates a flow through mechanism to ensure a company's return on investment remains relatively constant. The mechanism, referred to as purchased gas adjustment (PGA), is designed to provide immediate rate reaction to changes in gas prices. Subsequently, Actual Cost Adjustment Audits are conducted to ensure that companies have collected only the actual cost of gas from ratepayers. The division also conducts annual Weather Normalization Audits of a mechanism that is in place to reduce the impact abnormal weather has on customers' bills and on gas utilities' operations.



In periods of weather colder than normal, customers receive credit on their bills, while in periods of warmer than normal weather, customers are billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically, and the gas company should have a more stable rate of return. Incentive Plan Audits are conducted to ensure that utilities are prudent in their gas purchasing practices and that ratepayers are compensated appropriately for the companies' off system use of gas assets paid for by the ratepayers. The results of all audits are summarized in Utilities Division audit reports and filed with the Authority.

In 2004, the Authority interpreted its rules and regulations and concluded the intent of the PGA rules is to allow the gas company to recover the gas cost billed but not collected. Consistent with this interpretation, the Authority approved, on an experimental basis, an adjustment to the PGA to allow recovery of uncollected gas cost. The Authority reconvened this year and determined that a rule-making should be opened to address the necessary changes in the PGA formula that would allow companies to recover uncollected gas cost. The Utilities Division is drafting revised rules for consideration by the Authority.

The Authority granted a Certificate of Convenience and Necessity to ESG Pipeline in January 2006. This company is authorized to construct and operate a pipeline for the distribution only of processed methane gas in Johnson City, Tennessee.

Upon petition by the Consumer Advocate and Protection Division of the Attorney General, the Authority opened a proceeding to investigate if Atmos Energy Corporation is overearning in violation of Tennessee law. After consideration of a report, issued by the Utilities Division Investigative Staff, the Authority determined there was sufficient justification to proceed with the petition presented and scheduled the matter to conclusion. The Utilities Division is actively participating in this

docket and reviewing all financial information as presented.

In late June, Chattanooga Gas Company petitioned the Authority for a rate increase and approval of a comprehensive rate design. The Authority established a docket for consideration of this petition and the Utilities Division will monitor and review all submissions and will ultimately provide a recommendation to the Authority.

Due to noncompliance with financial reports, the Utilities Division investigated RBS Gas Utility Inc. operations in Tennessee. Upon completion of the investigation the Authority petitioned the courts to place this company into receivership. The Authority's petition was approved, and the company is currently operating under the supervision of Receivership Management, Inc.

TELECOMMUNICATIONS

Tennessee has 18 incumbent local exchange providers (ICOs), 115 facility based competitive local exchange carriers (CLECs), 222 resellers of local and long distance service, six long distance facility providers, 194 pay telephone providers and 10,215 pay customer-owned coin operated telephones (COCOTs).

The telecommunications industry has dramatically changed since passage of the 1995 and 1996 state and federal telecom acts. For the three largest ICOs within the state, BellSouth Telecommunications, Inc., Citizens of Tennessee and Embarq Corporation (formerly Sprint United), oversight has evolved from rate of return regulation to price cap regulation in an effort to nurture competitive markets. The smaller ICOs, 15 rural incumbent telephone companies, have generally experienced little competition and remain in rate of return oversight. All ICOs are required to have tariffs on file with the Authority that represent the terms, conditions and rates for services offered within the state.



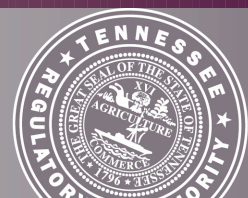
Upon passage of the Telecommunications Act of 1996, the FCC issued orders and directives to the states in carrying out the law. During the infancy stage of competition, the FCC imposed stringent requirements upon the Bell operating companies regarding provision of its network components to competitors. As competition increased in the telecommunications market, the FCC lessened these requirements, thereby encouraging competitors to utilize their own facilities. Final rules were adopted by the FCC on February 4, 2005. By request of the parties involved, the Authority conducted a proceeding to resolve issues regarding BellSouth's requirement to provide network elements such as switching, loops and transport to competitors. The findings of the Authority resulted in the opening of a docket to establish a switching interconnection rate in those circumstances where BellSouth Telecommunications is not required to provide the element pursuant to 47 U.S.C. §251. The Utilities Division will review all documents related to this proceeding from a technical and financial perspective and recommend the appropriate action necessary to establish a rate.

The Tennessee Relay Center (TRC) was established by the Authority to assist the state's hearing impaired citizens communicate over the telephone. Tennessee was one of the first states to operate such a center. Currently, the TRC is jointly funded by telecommunication providers through an additive to the rate paid for accessing the network. Annually, the Utilities Division assists the ICOs in determining the appropriate amount needed to recover the costs of operating the TRC and reviews the tariffs to implement this additive. Due to concerns raised by the industry that the current funding mechanism is not competitively neutral, the Authority opened a rulemaking to establish requirements and establish a funding mechanism to support the TRC. The Utilities Division will evaluate

the alternate funding mechanisms and assist the Authority in implementing any needed changes.

During the 2001 legislative session, the General Assembly enacted legislation which effectively lowered the amount of property taxes that ICOs are assessed for their properties. The legislation requires that any net tax savings be flowed through to rates for business and/or interconnection services effective October 1 of each year. Annually the Utilities Division calculates the amount of tax savings to be flowed through to ratepayers and ensures that providers file tariffs to reflect these tax savings.

In 1997, the FCC issued an order putting in place a federal universal service support system for telecommunications. The system is designed to meet the requirements of the 1996 Act, maintain affordable basic residential rates, ensure affordable basic service continues to be available to all users and bring the benefits of competition to as many consumers as possible. Criteria requiring a provider be designated and maintain Eligible Telecommunication Carrier ("ETC") status and receive support was established. The Authority has approved ETC designation for 20 providers regulated by the Authority. Further, the Authority annually accepts a self certification from these providers in order to maintain support. In March 2005, the FCC issued a subsequent order adopting more stringent requirements for ETC designation and annual certification filed with the FCC to be effective October 6, 2006. The Authority reviewed the FCC requirements and initiated a rulemaking to consider adoption of ETC requirements for those companies self-certifying with the Authority. The Utilities Division will consider the comments filed and draft rules for consideration by the Authority.



WASTEWATER

Nine wastewater utilities with approximately 89 wastewater systems located across Tennessee are regulated by the Authority. Tariffs containing all rates, terms and conditions of service are on file with the Authority. Seven requests for wastewater sites were filed in calendar year 2000, 10 in 2001, three in 2002, 11 in 2003, 16 in 2004, 21 in 2005 and eight during the first six months of 2006.

The legislature passed last session an amendment to Public Chapter 62, Tennessee Code Annotated, Section 65-4-201 which requires the Authority to direct the posting of a security by a public utility providing wastewater service to ensure continued proper operation and maintenance. Additionally, this legislation requires that the Authority, within 18 months, review the financial condition of all wastewater providers and determine on a case by case basis if an escrow account is needed to perform non-routine operation and maintenance. The Utilities Division is currently auditing two providers to determine compliance with applicable laws, rules and regulations and determine if an escrow account is necessary. Upon completion of the audit, the Utilities Division will provide a recommendation to the Authority on all issues related to the audits.

The Utilities Division continues to work with the Tennessee Department of Environment and Conservation coordinating efforts to ensure there is a plan for ongoing operation and maintenance of

wastewater systems, and working with the industry to devise measures to accomplish the goals of continued operations and safe and healthy wastewater systems for the public.

WATER

The Authority regulates eight water utilities in Tennessee. The utilities are rate of return regulated and have on file tariffs containing all rates, terms and conditions of service.

In July, Aqua Utilities Company requested approval of adjustment of its rates and charges. This docket will proceed with a fact finding phase, and the Utilities Division will review the information provided by the parties to form a comprehensive recommendation to the Authority.

ACTIVITIES

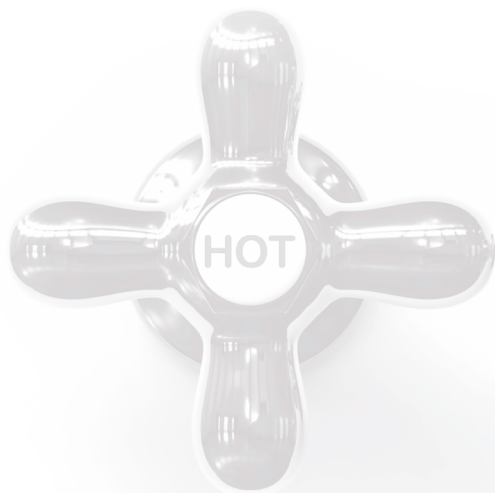
The Utilities Division continues to participate in various training opportunities to assist in staying current on governmental and industry trends in the electric, gas, telecommunications, water and sewer industries. Division staff also meet regularly with industry representatives to encourage the sharing of ideas on how to improve customer service and operating efficiencies.

ANALYSIS - INDUSTRY AND FILINGS

Tariff Review (647)

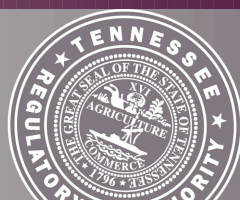
Annual Report Audits (45)

Gas Audits (12)



Telecommunications in Tennessee

- The Authority regulates the rates and service quality of investor owned utilities in Tennessee including telecommunications providers, energy providers and water and sewer utilities (not municipalities, cable, Internet or wireless providers).
- As of November 30, 2005, 92.5 percent of Tennessee households had wireline telephone service (national average: 92.9 percent).
- It is estimated that 73 percent of Tennessee households now have Internet access (national average: 78 percent).
- As of December 31, 2005, 31.2 percent of Tennessee households had high-speed (broad-band) Internet access (national average 37.6 percent).
- As of December 31, 2005, 69 percent of Tennesseans had wireless/mobile phones (national average: 69 percent).
- As of June 30, 2006, Tennessee had 347 companies providing local telecommunications services in Tennessee including 28 incumbent providers (18 investor owned and 10 telephone co-operatives), 115 competitive local exchange carriers (CLECs) and 222 resellers of local telephone services. Note: Incumbent providers are those companies providing local telecommunications services prior to passage of the Telecommunications Act of 1996 on February 8, 1996. CLECs are those companies who began offering facilities-based local telecommunications subsequent to February 8, 1996.
- As of June 30, 2005, 3.2 million regulated wired telephone lines were in service in Tennessee with approximately 500,000, or 15 percent, of those lines being provided by CLECs.
- At June 2006, CLECs were providing service in 90 of Tennessee's 95 counties but 68 percent of the CLEC lines are in the state's four largest metropolitan areas. Of the 90 counties served by CLECs, eight counties have 15 or fewer access lines served by CLECs.
- Sixty percent of the lines provided by CLECs in Tennessee are business lines while 40 percent are residential lines (as of June 2005).
- Four municipal electric utilities are providing telecommunications in Tennessee: Chattanooga Electric Power Board, Memphis Light, Gas and Water (through Memphis Network), Jackson Energy Authority and, approved for certification this year, Bristol Tennessee Essential Services.
- Penalty payments are made to the Authority by BellSouth after three months of continued non-compliance with the standards and benchmarks that were adopted to monitor BellSouth's whole sale operations. Through June 2006, these payments have amounted to \$3,036,789.
- To conserve telephone numbers and reduce the need to add area codes, Tennessee has ordered that telephone numbers be assigned to carriers in 1,000 number blocks instead of the 10,000 number blocks previously permitted by the FCC. Tennessee presently has six area codes and has not needed to add an area code since September 2001.
- By state law, all telephone calls originating and terminating within the same county are required to be completed without long distance charges (Tenn. Code Ann. § 65-21-114).



Competitive Local Exchange Companies Certificated by the TRA (As of June 30, 2006)

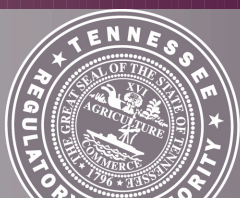
1 1-800 RECONEX d/b/a U.S. TEL	51 Image Access d/b/a NewPhone	101 TransNational Communications
2 Access Integrated Networks	52 Intrado Communications	102 Trinsic Communications
3 Access Point	53 ITC/DeltaCom	103 UCN
4 ACN Communication Services	54 Jackson Energy Authority	104 U-Dial of Tennessee
5 Aeneas Communications	55 Kentucky Data Link, Inc.	105 US LEC of Tennessee
6 Alec, Inc.	56 KMC DATA, LLC	106 Utilities Commission
7 Alltel Communications	57 Knology of Tennessee	107 VCI Company
8 American Fiber Systems	58 LecStar Telecom	108 VCustomer Corp.
9 AT&T Comm. of the So. Central States	59 Level 3 Communications	109 Vertex Communications
10 Balsam West FiberNet	60 Lightcore, a CenturyTel Company	110 Vo2 Networx
11 BCN Telecom	61 Lightyear Network Solutions	111 Volunteer First Services
12 BellSouth Long Distance	62 LoadPoint Telecommunications	112 Wiltel Communications, LLC.
13 Ben Lomand Communications	63 Madison River Communications	113 XO Tennessee
14 Big River Telephone	64 MCI Communications Services, Inc.	114 Xspedius Mgt. Co. of Chatt.
15 Birch Telecom	65 MCImetro Access Transmission Svs.	115 Xspedius, LLC
16 BLC Management d/b/a Angles Comm.	66 McLeod USA Telecomm Services	
17 Boadwing Communications, LLC	67 Memphis Networx	
18 Bristol Tennessee Essential Services	68 Metropolitan Telecommunications	
19 Budget Phone	69 Momentum Telecom	
20 Bullseye Telecom	70 MountaiNet Telephone Company	
21 Business Telecom	71 NA Communications	
22 Cat Communications International	72 Nationsline South, Inc.	
23 CenturyTel Acquisition, LLC	73 Navigator Telecommunications	
24 CenturyTel Solutions	74 Network Telephone Corp.	
25 Charter FiberLink-Tennessee	75 New Edge Network	
26 CI?, Inc.	76 NOS Communications	
27 Cinergy Communications Company	77 NOW Communications	
28 Comcast Phone of Tennessee	78 Nu Vox Communications	
29 CommPartners, LLC	79 Pac-West Telecom, Inc.	
30 CommuniGroup of Jackson	80 Quality Telephone	
31 Computer Network Technology	81 Qwest Communications Corp.	
32 Comtel Telecom Assets LP	82 Qwest Interprise America	
33 Covista	83 RTC Solutions	
34 Cypress Communications Operating Co.	84 SBC Long Distance, Inc.	
35 DIECA Communications	85 SBC Telecom, Inc.	
36 Dixie Net Communications	86 Southern Digital Network d/b/a FDN Comm.	
37 DSLnet Communications	87 Sprint Communications Company	
38 Eagle Communications	88 Symtelco, LLC	
39 East Tennessee Network d/b/a XTN	89 Talk America	
40 Electric Power Board of Chattanooga	90 TCG MidSouth	
41 ETC Communications, LLC	91 TelCove of Nashville	
42 Frontier Communications of America	92 TelCove Operations	
43 Frontier Communications of TN/Vol	93 Telepak Networks	
44 Global Connection Inc. of Tennessee	94 Tele-Sys	
45 Global Crossing Local Services	95 Tennessee Independent Telecommunications Group, LLC	
46 Global NAPs Gulf	96 Tennessee Telephone Service d/b/a Freedom Comm.	
47 Granite Telecommunications	97 Texas Hometel, Inc.	
48 IBFA Acquisition Company	98 The Other Phone Company, d/b/a Access One Comm.	
49 ICG Telecom Group	99 Time Warner Cable Information Services	
50 IDS	100 Time Warner Telecom of the Mid-South	



Telecommunications Service Providers Pertinent Data

(CURRENT AS OF JUNE 30, 2006)

Incumbent Local Exchange Carriers	18
Competitive Local Exchange Carriers (Facilities-Based)	115
Telephone Cooperatives (Not regulated by the TRA)	10
Resellers of Local and Long Distance Service	222
Long Distance Companies (Facilities-Based)	6
Pay Telephone Providers	194
Pay Telephones	10,215
Existing Interconnection Agreements between Competitive Local Exchange and Incumbent Carriers	225
Existing Resale Agreements between Local Resellers and Incumbent Carriers	145
Existing Interconnection Agreements between Commercial Mobile Radio Services (CMRS) and Incumbent Carriers	107
Existing Resale Agreements between Commercial Mobile Radio Service (CMRS) and Incumbent Carriers	6



**CUSTOMERS SERVED BY AND TOTAL REVENUES OF ELECTRIC, GAS, WATER, WASTEWATER UTILITIES
WITHIN TENNESSEE DURING 2005**

	Residential	Commercial	Industrial	Other	Total	Total Revenues	Annual Avg. Bill Residential
<u>GAS UTILITIES:</u>							
Chattanooga Gas Company	53,383	8,531	71	2	61,987	122,689,890	\$ 916.87
Counce Natural Gas Company	111	34	2		147	252,334	\$ 562.01
Gasco Distribution Systems	473	120	9		602	1,197,864	\$ 678.13
Nashville Gas Company	138,512	16,501	190		155,203	265,979,193	\$ 1,107.71
Atmos Energy Corporation	109,025	15,134	356	503	125,018	218,636,438	\$ 923.08
RBS Gas Utility							
<u>ELECTRIC UTILITIES:</u>							
Entergy Arkansas, Inc.	13	5	3		21	16,280	\$ 548.69
Kentucky Utilities Company	5				5	2,555	\$ 511.00
Kingsport Power Co.	40,195	5,603		162	45,960	93,042,211	\$ 922.93
<u>WATER/WASTEWATER UTILITIES:</u>							
Antioch Water (W)	243				243	62,317	\$ 256.45
Aqua Utilities (W)	187				187	37,059	\$ 198.18
Aqua Utilities (S)	238						
					238	19,257	\$ 80.91
Cartwright Creek (S)	520				520	241,014	\$ 359.48
Foothills Water Properties (W)	94				94	33,028	\$ 351.36
H C Sewage Company (S)		2			2	18,700	\$ -
Hickory Star (W)	112				112	50,503	\$ 450.92
Hickory Star (S)	112				112	14,110	\$ 125.98
IRM Utility, Inc. (S)	.	3			3	7,980	\$ -
Kings Chapel Capacity, L. L. C. (S)						-	\$ -
Lynnwood Utilities (S)	779				779	500,935	\$ 622.31
Newport Resort Water System (W)	48				48	19,086	\$ 403.42
Tennessee Wastewater Systems, Inc. (S)	913				913	486,741	\$ 464.18
TESI, Inc. (W)	88				88	67,271	\$ 764.44
Shiloh Falls Utilities (S)	132	11			143	57,106	\$ 331.70
Tennessee American Water Co. (W)	57,211	7,473	120	590	65,394	32,482,148	\$ 230.96
Tennessee Water Service, Inc. (W)	545				545	203,590	\$ 365.57
	-				-	-	\$ -

"W" = Water / "S" = Wastewater

¹ Company did not file its annual financial report.













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